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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
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Changes in Banking Practices in Minnesota

G. L. Peterson

The type of business done by the typical country bank has undergone marked change from what it was 20 years ago. A study[1] being made by the Division of Agricultural Economics attempts to throw some light on the changes which have taken place. This study includes 116 banks in the smaller cities and villages, about one fourth of all the state banks in Minnesota. Perhaps the most noteworthy change is the decreasing importance of the loan account.

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Less than 20 years ago loans and discounts were equal to seventy-five per cent of the resources of these banks. With the exception of 1937 and 1938, loans and discounts since 1919 have been becoming a consistently smaller proportion of the total resources as is shown in fig. 1. In 1936 they were about one half as important as in 1921 and since 1933 have been only 40 per cent of the total resources.

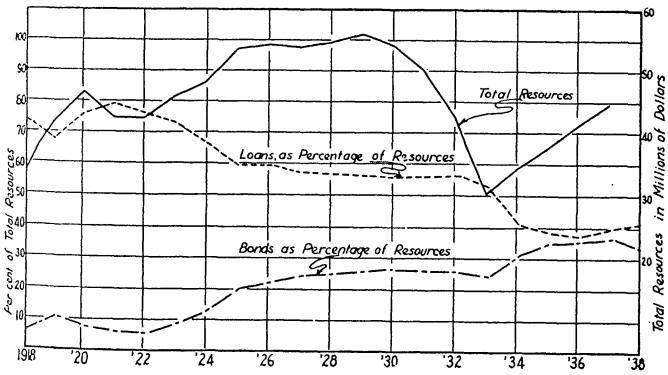

Fig. 1. Relation of Loans and Discounts and Bonds to Total Resources

From 1922 to 1929 bank resources increased substantially, whereas the dollar volume of loans and discounts remained practically stationary. The growing disparity between total resources and the loan account indicates that borrowers were experiencing difficulty in meeting their obligations and that bankers were becoming more selective in choosing their risks. In 1931, 1932, and 1933 the desire of bankers for liquidity served to keep the ratio of loans to total resources low. Thereafter, the entrance of other lending agencies into the short-term agricultural-credit field has had considerable influence in holding down the loan account.

Since loans and discounts have been of decreasing importance, how have country banks invested their resources? It has commonly been assumed that the present large investment in bonds is a depression phenomenon. But this is not so. The tendency to invest a greater and greater proportion of their resources in bonds has been in evidence since 1924. From that time on the proportion thus invested has, with minor exceptions, increased from year to year. Figure 1 clearly indicates that as the volume of loans has fallen off or as resources have increased, bankers have been quick to invest their excess funds in bonds. From 1922 to 1932 changes in the proportion of loans to total resources were almost exactly compensated for by opposite changes in the ratio of bonds to resources. After 1932 when the loan portfolio fell off most precipitously, new bond purchases did not fully offset these reductions. Failure to do so arose out of the experiences of the late twenties and early thirties. Before 1933 these bankers had about 82 per cent of their resources in loans and bonds and only 11 per cent in cash and deposits in correspondent banks. Since 1933 they have maintained a more liquid position by keeping 19 per cent in cash and deposits in correspondent banks and a greater proportion of U. S. bonds than before.

In addition to the changes which have taken place in the investment of resources, considerable change has also taken place in the types of loans which are now being made. First mortgage loans on farm property have not been as important an avenue of investment since the bank holiday and reorganization as previously. Throughout most of the period from 1920 to 1933 more than 20 per cent of the banks' loans were first mortgage loans on farm land. Since 1933 less than 20 per cent of the loans have been such loans. Furthermore, the farm mortgage loans which are being made are a different type of loan than formerly in that they are made on a much more conserva-

[1] Assistance in the preparation of this material was furnished by the personnel of the Works Progress Administration, Official Project No. 465-71-3-350.

tive basis. (See May 1939 issue of Minnesota Farm Business Notes.)

The proportion of the total loans which is invested in first mortgages on town property has remained practically the same as it was from 1925 to 1933. This type of loan has never amounted to 10 per cent of the total loan volume and for 13 successive years fluctuated only within the narrow range of 7 and 9½ per cent. Nor is any change apparent in the proportion of the total loans going to neighboring banks, into short-time commercial paper, and county, township and school district warrants. The amount so invested has varied from 3 to 8 per cent during the period under study.

Second Mortgage Loans

A type of loan which is now practically extinct but which used to absorb a share, though not a very important part, of the banks' resources, and one through which many bankers came to grief, is the second mortgage loan. It was used principally in the financing of farm real estate during the first half of the twenties. Its weaknesses began to show up with the decline in land values and thereafter the amount invested in this type of loan began to decline. By 1932 second mortgage loans accounted for only 2.3 per cent of the total loans, and at the present time is less than two tenths of one per cent. In the middle twenties, 7 per cent of the loans were such loans. Though not a very large proportion, it nevertheless gave rise to considerable loss and the acquisition of a substantial amount of burdensome farm land, especially for some banks.

Another type of loan which has had practically the same history as the second mortgage loan is the "outside" loan. These are loans made outside of the respective bank's business locality and were, in the greater majority of cases, made to borrowers in North Dakota and Montana. In most cases they arose by purchase of paper from western banks, but in others, Minnesota bankers had financial interests in western banks and in this manner transferred local funds into western loans. They were of greatest importance in the early twenties, at the time of, or shortly after, the land boom both here and in the prairie states. In 1920, '21, and '22 these outside loans amounted to approximately 10 per cent of the total loan volume. Thereafter they began to decline in importance, but they have not yet fully disappeared. At the present time, they constitute about 3 per cent of the loan volume and, in general, are made to borrowers not far removed from the bank's business locality.

A considerable proportion of the outside loans made during the twenties were carried on the books from year to year without reduction and substantial amounts had to be charged-off as worthless. Thus, in the period 1920-1930, 8 to 15 per cent of the loans of these banks were second mortgage loans and outside loans. The losses on these were sufficient to wipe out the entire capital structure of many small country banks in Minnesota.

The remaining portion of the loans held by these banks are loans which until recently have been unclassified. They are chiefly the typical unsecured loan and the loan secured by mortgage on chattel. In this category of unclassified loans are both the loans to farmers and nonfarmers. They constitute more than one half of all the loans held. From 1920 to 1938 inclusive, they ranged from 52 to 64 per cent of the total loans outstanding. Since 1935 chattel mortgage loans on farm property have been classified separately and in the 4 years since this classification was made, they have constituted one third of the loans held. Thus the chattel mortgage loans to farmers is the predominant type of loan made by country banks in Minnesota. The loans which are now shown as unclassified loans constitute about 28 per cent of the total loans. But a large part of these are also loans to farmers. No figures are available to show what portion of these loans are unsecured loans to farmers at the present time. At the time of the bank holiday in 1933, unsecured farm loans constituted 18 per cent of the total loan volume. If approximately the same proportion holds today, the unsecured loans and loans secured by chattel to people other than farmers constitute about 10 per cent of the total loans.

Chattel mortgage to farmers and the remaining unclassified loans occupy a more important position in the loan portfolio of Minnesota banks than they did previous to 1933. There has been an increase of approximately 25 per cent in the total outstanding loans since 1935. While most all classes of loans have shared in the increase, the chattel mortgage loans to farmers and other unclassified loans have shared proportionately more in this increase than the other types of loans.

More Security for The Farm Tenant

GEORGE A. POND

It is generally conceded that more security for farm tenants is desirable from the standpoint of society as well as of the tenant. According to the 1935 federal census, 21 per cent of the tenants in Minnesota had moved during the year and only 47 per cent had been on the same farm as long as 5 years. A study in 1936 indicated that the average occupancy by tenants then on farms in Minnesota was 5 years. Since tenancy is the door by which most farmers make their entry into farming, it is to be expected that there will always be many starting out each year. It is also logical to expect some moving from farm to farm as tenants accumulate the capital and experience that enables them to command better farms. The present rate of turnover for farm tenants is far in excess of this normal turnover.

One method commonly suggested for increasing security of tenure is longer term leases. Many landlords are holding their land for sale at the first favorable opportunity and do not want to be tied up with a long-term lease. Neither do they want to make a long-term contract with a tenant until they learn from observation and experience his qualifications and character. A tenant, on the other hand, does not wish to be placed in a position where he is unable to take advantage of an opportunity to rent a better farm or to buy a farm of his own. The inflexibility of the

long-term lease makes it generally unsatisfactory. Only 18 per cent of the farm leases in use in Minnesota in 1936 were for a period of more than one year. Nine per cent covered a three-year term and only 5 per cent for a period as long as 5 years.

A more satisfactory way to increase security of tenure is the use of a one-year lease with a renewal clause providing for its continuance from year to year as long as it is mutually satisfactory. This has worked successfully in England for many years and tenants have remained on the same farm for their entire working lifetime under this annually renewable type of lease. This renewal clause provides that the lease continues in operation from year to year unless either party serves notice upon the other of his desire to cancel it at the end of the year. The lease should provide that this notice be given in ample time for the landlord to get another tenant or for the tenant to secure another farm. More than 60 per cent of the farm leases in Minnesota expire March 1. Notice should be given by at least September 1 of the previous year. About one third of all leases expire October 1. For these notice should be given by July 1 or at the latest, August 1.

An additional clause in the lease providing for compensation to the tenant for unexhausted improvements he has added and to the landlord for losses owing to the tenant's neglect and carelessness will add further to the tenant's security as well as encourage better farming on his part. Such compensation would cover fall plowing, summer fallow, and other weed-control measures, winter crop seedings, grass and legume seedings, lime and fertilizer applications, and the like. There might also be a provision whereby the landlord who failed to give advance notice of cancellation might still be able to dispossess the tenant in case he had an opportunity to sell the farm by making a substantial cash payment that would indemnify the tenant for any loss or inconvenience he would suffer. Less than 20 per cent of the farm leases in Minnesota contain renewal clauses. Few of these provide adequate notice and even less provide any compensation to either party other than an allowance to the tenant for plowing he has done. The general adoption of the renewal clause in one-year leases, with adequate advance notice of cancellation and a provision for compensation to tenant and landlord, would furnish much more security to the tenant without working any hardship on the landlord, and would encourage him to do a better job of farming.

Effective Use of Feed Increases The Farmer's Earnings

W. P. RANNEY

One of the reasons some farmers earn considerably more than others in the same neighborhood is that they keep better livestock and handle their livestock more efficiently.

There is always a wide range among farms in any community in net returns per animal unit of productive livestock kept. This is well illustrated in figure 1 which shows the range in index of returns above feed per animal unit among a large group of dairy farms in southeastern Minnesota during the ten-year period from 1928 to 1937. Farm accounts are available for each year for about 150 farms. The returns above feed for each farm are computed as an index or weighted percentage of the averages for each kind of livestock on all of these farms. An index of 100 represents the average.

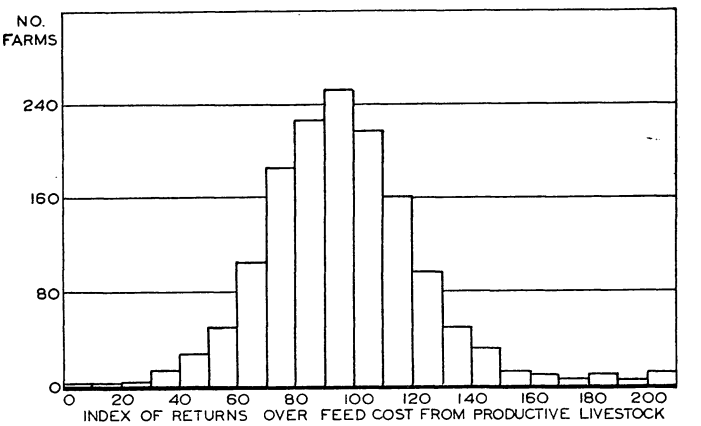

FIGURE 1. DISTRIBUTION OF FARMS CLASSIFIED ACCORDING TO INDEX OF RETURNS ABOVE FEED PER ANIMAL UNIT OF PRODUCTIVE LIVESTOCK

As shown in figure 1, a considerable number of farmers receive more than three times as large returns above feed than the group who ranked quite low in feeding efficiency. Feed is the major cost in livestock production, and livestock constitute the major source of income on these farms. Hence there is a marked relationship of returns above feed to the operator's earnings on these farms, as shown in table 1.

Table 1. The Relationship of Returns Above Feed per Animal Unit of Productive Livestock to Operator's Labor Earnings on Dairy Farms in Southeastern Minnesota, 1928 to 1937*

Index of Returns Above Feed Per Animal Unit		No. of Farms	Average Earnings
Group	Average		
59 and less	47	95	$ 802
60- 79	70	294	1,419
80- 99	89	479	1,703
100-119	108	375	1,907
120-139	127	146	2,216
140-159	146	43	2,423
160 and more	234	30	3,344

* The earnings are adjusted to the 1928-1929 price level.

There are a number of reasons for the differences among farms in livestock returns. High productivity per animal is paramount. Economy in the use of feed, labor, and equipment are also important. Much depends on the selection of livestock. Also, the amount, kind and relative prices of feed used, the balancing of the ration, regularity of feeding and choring, sanitation, proper shelter and equipment, water supply, pasture management, care at time of birth, nature and quality of product, and seasonality of production are some of the many points that the farmer must consider in his endeavor to increase net livestock returns and thereby his farm earnings.

Minnesota Farm Prices for Aug. 1939

Prepared by W. C. WAITE and W. B. GARVER

The index number of Minnesota farm prices for the month of August, 1939, was 55. When the average of farm prices for the three Augusts, 1924-25-26, is represented by 100, the indexes for August of each year from 1924 to date are as follows:

1924— 95	1928—100	1932— 41	1936— 96
1925—104	1929—104	1933— 54	1937— 86
1926—100	1930— 81	1934— 72	1938— 60*
1927—100	1931— 55	1935— 70	1939— 55*

* Preliminary.

The price index of 55 for the past month is the net result of increases and decreases in the prices of farm products in August, 1939, over the average of August, 1924-25-26, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index. August 15, 1939, with Comparisons*

	Aug. 15, 1939	July 15, 1939	Aug. 15, 1938		Aug. 15, 1939	July 15, 1939	Aug. 15, 1938
Wheat	$0.57	$0.59	$0.56	Cattle	$6.50	$6.60	$6.70
Corn	.34	.35	.40	Calves	8.10	8.00	8.10
Oats	.20	.22	.16	Lambs-sheep	7.14	7.52	6.80
Barley	.32	.31	.34	Chickens	.10	.11	.12
Rye	.29	.30	.30	Eggs	.13	.13	.18
Flax	1.35	1.40	1.56	Butterfat	.24	.24	.26
Potatoes	.55	.75	.55	Hay	3.90	3.89	4.58
Hogs	5.30	6.00	7.70	Milk	1.35	1.30	1.50

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

This August saw the index decline to the lowest point for that month since the 1931-33 extreme lows. The decline of six points from July to August for the index was the result of softening in several items. Hogs especially were off to $5.30 as against the usual slight seasonal rise from July to August. Hogs were under some selling pressure with receipts at the principal markets running one fifth larger than for the corresponding month last year. With relatively less decline in corn prices than for hogs, the hog-corn ratio for Minnesota returned to 15.6 bushels at substantially the same level it held for June. Butterfat was unchanged from July, whereas it, too, normally rises somewhat from July to August.

Indexes and Ratios of Minnesota Agriculture*

	1939 July	1939 July	1938 Aug.	Average 1924-26 Aug.
U. S. farm price index	62.4	64.0	65.2	100
Minnesota farm price index	55.2	61.4	60.2	100
U. S. Purchasing power of farm products	79.7	81.6	81.2	100
Minn. purchasing power of farm products	69.2	78.3	75.0	100
Minn. farmer's share of consumer's food dollar	.....	41.4	44.9	56.1
U. S. hog-corn ratio	12.0	13.1	16.1	11.4
Minnesota hog-corn ratio	15.6	17.1	19.2	12.3
Minnesota egg-grain ratio	17.5	16.4	23.1	14.2
Minnesota butterfat-farm-grain ratio	38.0	36.3	42.9	32.4

* Explanation of the computation of these data may be had upon request.

Potato Production and Marketings

U. S. potato production in the last 20 years has varied from less than 300 million bushels to over 425 million bushels. Last year the crop was estimated at 372 million bushels while this year's indications are for around a 357-million bushel crop. Fluctuations in production are due to variations in both acreage and yield, but yield tends to fluctuate somewhat more than acreage for the U. S. Over the past 20 years, U. S. average yields have ranged from 90 to 123 bushels per acre with the 1939 yield estimated by the Crop Reporting Board at 116 bushels.

Minnesota production has ranged from 12,500,000 bushels (in 1936) to 43,700,000 bushels (in 1922). Acreage in the past three years has been only 230-240,000 as compared with an average of 330,000 for the past 20 years. Preliminary estimates for the 1939 crop indicate 239,000 acres. Last year the acreage was 230,000. The expected yield is around 95 bushels as against 90 bushels for 1938. During the past 20 years the Minnesota yield has varied from 68 to 132 bushels. Potato acreage and yield fluctuate to about the same extent in Minnesota, but in recent years light acreages have frequently happened to be accompanied by relatively light yields with the result that production fluctuates from year to year somewhat more than either acreage or yield. The present prospect is for a 1939 production for the state of about 22,705,000 bushels, a volume which has been exceeded in all but two of the last 20 years.

Minnesota potatoes are sent to a number of markets in considerable quantity. The Bureau of Agricultural Economics report of carlot unloadings for the calendar year 1938 shows receipts in 38 of the 66 large cities covered by the report. The report covered 3,606 carlots received from Minnesota. This amount represented less than one third of the total loadings in the state and 5 per cent of the total receipts in the 38 cities. The leading markets with the carlot unloads of Minnesota potatoes were as follows: St. Louis, 602; Chicago, 591; Peoria, Illinois, 311; Nashville, Tennessee, 231; Minneapolis, 205; Kansas City, Missouri, 192; Cincinnati, Ohio, 189; Des Moines, Iowa, 153; Omaha, Nebraska, 139; and Birmingham, Alabama, 122.

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